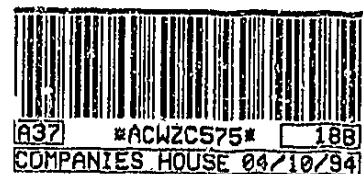


MIDLAND BANK INTERNATIONAL

FINANCIAL SERVICES LIMITED

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 1993



Registered No: 980554

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 1993.

Principal Activity and Business Review

Midland Bank International Financial Services Limited (the Company) is the holding company for an international group of companies providing a comprehensive range of banking, financial and related services.

During the year the Company continued providing services to its subsidiaries.

During 1993 the Company disposed of a number of its non-strategic businesses, including its minority shareholding in Trinkaus Montagu GmbH together with the sale of its investments in Euromobiliare SpA and Midland Montagu Fininter Holdings SGPS S.A.

On 29 December 1993 following a review of the corporate structure, the businesses of the Trust Corporations were re-organised whereby Midland Bank Trust Corporation (Guernsey) Limited ("MBTC-Guernsey") was sold and the trustee business undertaken by Midland Bank Trust Corporation (Jersey) Limited ("MBTC-Jersey") was transferred to another HSBC Holdings plc group subsidiary. Contemporaneously, the name of MBTC-Jersey was changed to "Midland Bank International Finance Corporation Limited" ("MBIFC") and a Guernsey branch was established in its name to handle the off-shore banking business acquired from MBTC-Guernsey.

In the latter half of the year, the Company changed its policy in relation to hedging its net equity investments in all overseas subsidiaries through foreign currency funding loans. The Company has adopted a policy of not hedging its investments. The majority of currency loans were repaid during 1993.

No other significant developments are envisaged which will materially alter the above situation.

Results and Dividends

The profit for the year after taxation amounted to £16,236,000 (1992: £12,273,000 - loss as restated per Note 13). Interim dividends of £35,000,000 have been paid. The directors do not recommend the payment of a final dividend.

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

Director's Report (Cont)

Directors

Listed below are the names of all Directors who served on the Board during the period under review:-

	Appointed	Resigned
R M J Orgill	09.07.93	
K R Whitson		09.07.93
K R Geiger		07.03.93
M R P Smith	07.03.93	
C Kirkby	09.07.93	
P G Hickman		
Miss I M Dorner		09.07.93

Directors' Interests

All the interests of the directors which require disclosure in accordance with the Companies Act 1985 are stated below:-

HSBC Holdings plc

	31.12.93		1.1.93 (or date of appointment if later)	
	Ord shares of 75p each (HK \$10 each)*	Bonds of £1 each	Ord shares of 75p each (HK \$10 each)*	Bonds of £1 each
P G Hickman	1,574	815	1,524	815
C Kirkby	4,697	1,907	4,650	1,907
M R P Smith	1,113*		1,077*	
R M J Orgill		250,000		Nil

In addition, between the above dates, the following directors were granted options over the number of HSBC Holdings plc Ordinary 75p shares indicated against their names.

	Granted
R M J Orgill	7,000
M R P Smith	4,500

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

Director's Report (Cont)

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Auditors' statement of their responsibilities set out on in their Report on page 15, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year. The Directors are required to prepare the financial statements on the going concern basis unless it is not appropriate.

The Directors consider that in preparing the financial statements on pages 4 to 14, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

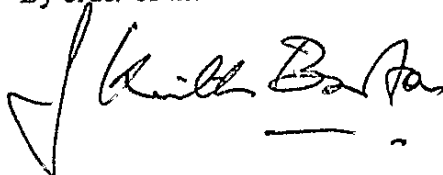
The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditors

KPMG Peat Marwick were appointed as auditors in succession to Ernst & Young who resigned on 28 July 1993.

By order of the Board



J K Barton
Secretary
10 Lower Thames Street
London, EC3R 6AE

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1993**

	<u>Notes</u>	1993 £000	1992 £000 Restated (note 13)
Income from shares in group undertakings		39,141	52,294
Income from participating interests		402	996
Interest receivable from group undertakings		12,349	14,583
Amounts written off investments		(26,132)	-
Exchange gains (losses)		185	(75)
Administrative expenses		<u>(25)</u>	<u>(25)</u>
OPERATING PROFIT		25,920	67,773
Gains (losses) on disposal of subsidiaries	5	<u>2,411</u>	<u>(66,140)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	28,331	1,633
Taxation on profit on ordinary activities	3	<u>(12,095)</u>	<u>(13,906)</u>
PROFIT (LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		16,236	(12,273)
Dividends paid and proposed	4	<u>(35,000)</u>	<u>(6,100)</u>
RETAINED (LOSS) FOR THE YEAR		<u>(18,764)</u>	<u>(18,373)</u>

All amounts relate to continuing activities.

Movements in retained losses are set out in Note 13.

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED**BALANCE SHEET AS AT 31 DECEMBER 1993**

	<u>Notes</u>	<u>1993</u> <u>£000</u>	<u>1992</u> <u>£000</u>
FIXED ASSETS			
Investments	6	384,655	616,431
CURRENT ASSETS			
Debtors	7	25,793	1,589
Bank balances with parent undertaking		<u>302</u>	<u>61</u>
		26,095	1,650
CREDITORS: amounts falling due within one year	8	<u>(42,402)</u>	<u>(13,591)</u>
NET CURRENT ASSETS		<u>(16,307)</u>	<u>(11,941)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		368,348	604,490
CREDITORS: amounts falling due after more than one year	9	(62,826)	(334,832)
PROVISIONS FOR LIABILITIES AND CHARGES	10	<u>(1,005)</u>	<u>(196)</u>
TOTAL ASSETS LESS LIABILITIES		<u>304,517</u>	<u>269,462</u>
CAPITAL AND RESERVES			
Called up Share Capital	11	46,127	46,127
Share Premium	11	113,076	113,076
Revaluation Reserves	12	116,514	52,283
Profit and Loss account	13	<u>28,800</u>	<u>57,976</u>
		<u>304,517</u>	<u>269,462</u>

The financial statements were approved by the board of directors on 23 February 1994 and were signed on its behalf by:



M R P Smith
Director

The notes on pages 6 to 14 form part of the accounts

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 1993**

	1993 £000	1992 £000
(Loss) for the Financial Year	(18,764)	(18,373)
Unrealised surplus (deficit) on revaluation of investments in subsidiaries	<u>23,523</u>	<u>(71,796)</u>
Total recognised gains (losses) for the year	<u>4,759</u>	<u>(90,169)</u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 1993

	1993 £000	1992 £000
Reported profit on ordinary activities before taxation	28,331	1,633
Realisation of investment in subsidiary revaluation (deficits) surpluses of previous years	<u>(10,412)</u>	<u>66,140</u>
Historical cost profit on ordinary activities before taxation	<u>17,919</u>	<u>67,773</u>
Historical cost (loss) profit for the year retained after taxation and dividends -	<u>(29,176)</u>	<u>47,767</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 1993

	1993 £000	1992 £000
Profit (loss) for the financial year	16,236	(12,273)
Dividends	<u>(35,000)</u>	<u>(6,100)</u>
	(18,764)	(18,373)
Other recognised gains and losses for the year	23,523	(71,796)
New share capital subscribed	-	136,973
Goodwill taken to the profit and loss account on disposal	<u>30,296</u>	<u>190</u>
Net addition to shareholders funds	35,055	46,994
Opening shareholders' funds	<u>269,462</u>	<u>222,468</u>
Closing shareholders' funds	<u>304,517</u>	<u>269,462</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1993

1. ACCOUNTING POLICIES

a) Basis of accounting

The accounts are prepared under the historical cost convention except as discussed in note (e) below, and in accordance with applicable accounting standards.

Group accounts have not been prepared as the Company is itself a wholly owned subsidiary of an EC parent and for this reason the associated undertakings have not been accounted for on the equity basis. The accounting treatment of subsidiary undertakings is discussed in note (e) below.

b) Deferred taxation

Deferred taxation is calculated, using the liability method, on all timing differences.

c) Currency translation

Assets and liabilities expressed in foreign currencies have been translated into sterling at the rates ruling at the balance sheet date. Any difference is taken to the profit and loss account, except for exchange differences arising on the translation of currency investments which are offset by the same amount of exchange difference on the translation of currency funding loans.

d) Dividend income

Dividends received and receivable are stated gross of overseas withholding tax credits.

e) Investments

Investments are stated at cost less any provision for diminution in value, except for investments in subsidiary undertakings, which are stated at the Company's share of net tangible assets.

The increase (decrease) in the Company's share of the net tangible assets of its subsidiaries is credited (debited) to the revaluation reserve, including goodwill arising on acquisition.

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1993
(continued)

2. PROFIT BEFORE TAXATION

	1993 £000	1992 £000
Auditors' remuneration	<u>23</u>	<u>25</u>

3. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1993 £000	1992 £000
The charge for taxation is made up as follows:		
UK corporation tax at 33%	20,071	26,370
Relief in respect of overseas taxation	<u>(9,015)</u>	<u>(12,572)</u>
	11,056	13,798
Under/(over) provision in prior years	(20)	(204)
Overseas taxation	250	200
UK deferred taxation	<u>809</u>	<u>112</u>
	<u>12,095</u>	<u>13,906</u>

4. DIVIDENDS

	1993 £000	1992 £000
Ordinary shares		
Interim	35,000	6,100
Final proposed	<u>-</u>	<u>-</u>
	<u>35,000</u>	<u>6,100</u>

5. GAINS (LOSSES) ON DISPOSAL OF SUBSIDIARIES

	1993 £000	1992 £000
Gains (losses) on disposal of subsidiaries	32,707	(65,950)
Goodwill written-back (see Note 12)	<u>(30,296)</u>	<u>(190)</u>
	<u>2,411</u>	<u>(66,140)</u>

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1993
(continued)

6. INVESTMENTS

	Shares in group <u>under-</u> <u>takings</u> £000	Deposits with group <u>under-</u> <u>takings</u> £000	Unlisted shares in associated <u>under-</u> <u>takings</u> £000	Unlisted shares in trade investments £000	Total £000
Cost					
At 1 Jan 1993	395,938	216,706	3,787	2	616,433
Currency translation differences	(6,308)	-	81	-	(6,227)
Additions	19,455	78,717	-	-	98,172
Disposals	(29,682)	(291,430)	-	-	(321,112)
Revaluations	<u>23,523</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,523</u>
At 31 Dec 1993	<u>402,926</u>	<u>3,993</u>	<u>3,868</u>	<u>2</u>	<u>410,789</u>
Provisions					
At 1 Jan 1993	-	-	-	(2)	(2)
Currency translation differences	-	-	-	-	-
Additions	<u>(26,132)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,132)</u>
At 31 Dec 1993	<u>(26,132)</u>	<u>-</u>	<u>-</u>	<u>(2)</u>	<u>(26,134)</u>
Net book amount at 31 Dec 1993	<u>376,794</u>	<u>3,993</u>	<u>3,868</u>	<u>-</u>	<u>384,655</u>
Net book amount at 31 Dec 1992	<u>395,938</u>	<u>216,706</u>	<u>3,787</u>	<u>-</u>	<u>616,431</u>

During 1993 it was the Company's policy to hedge its net equity investment in all overseas subsidiaries through foreign currency funding loans. Exchange differences on these loans are matched in reserves to the extent of exchange differences arising on the related investments, any difference being taken to the profit and loss account.

As discussed in the Directors' report on page 1, the Company changed its hedging policy during the year. The majority of foreign currency loans were repaid in 1993.

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1993

(Continued)

7. DEBTORS

	1993	1992
	£000	£000
Amounts falling due within one year:		
Amounts due from parent and fellow subsidiary undertakings	293	1,589
Amounts due from subsidiary undertakings	<u>25,500</u>	<u>-</u>
	<u>25,793</u>	<u>1,589</u>

8. CREDITORS

	1993	1992
	£000	£000
Amounts falling due within one year:		
Amounts due to parent and fellow subsidiary undertakings	31,575	-
Group relief payable	10,806	13,565
Other	<u>21</u>	<u>26</u>
	<u>42,402</u>	<u>13,591</u>

9. CREDITORS

	1993	1992
	£000	£000
Amounts falling due after more than one year:		
Loans from parent and fellow subsidiary undertakings	62,826	112,581
Other amounts due to parent and fellow subsidiary undertakings	<u>-</u>	<u>222,251</u>
	<u>62,826</u>	<u>334,832</u>

Midland Bank plc has indicated that it is its intention to provide such loans as are necessary to fund the investments of the Company. There are no fixed dates for the repayment of the above loans.

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1993

(Continued)

10. PROVISIONS FOR LIABILITIES AND CHARGES

	1993 £000	1992 £000
Deferred taxation		
At 1 January	196	84
Credit/(charge) for the year	809	112
At 31 December	<u>1,005</u>	<u>196</u>

Deferred tax relating to short term timing differences arising from dividends potentially receivable from overseas subsidiaries has been provided for in addition to that arising from other sundry timing differences.

11. CALLED UP SHARE CAPITAL

	'A' Ordinary Shares £	'B' Ordinary Shares £	'C' Ordinary Shares (non-voting) £	Total £
<u>Authorised shares of £1 each</u>				
As at 1 Jan 1993	8,000	2,000	49,990,000	50,000,000
Increase during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 Dec 1993	<u>8,000</u>	<u>2,000</u>	<u>49,990,000</u>	<u>50,000,000</u>
<u>Issued and fully paid shares of £1 each</u>				
At 1 Jan 1993	8,000	2,000	46,116,534	46,126,534
Allotment during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 Dec 1993	<u>8,000</u>	<u>2,000</u>	<u>46,116,534</u>	<u>46,126,534</u>
<u>Share premium</u>				
At 1 Jan 1993	-	-	113,076,123	113,076,123
Increase during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 Dec 1993	<u>-</u>	<u>-</u>	<u>113,076,123</u>	<u>113,076,123</u>

MILLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1993

(Continued)

12. REVALUATION RESERVES

	1993 £000	1992 £'000
At 1 January	52,283	190,029
Currency translation differences on investments	(6,227)	37,705
Exchange gains on foreign currency borrowings	6,227	(37,705)
Revaluation of investments in subsidiaries	23,523	(71,796)
Goodwill write-back on disposal of subsidiaries	30,296	190
Realisation of investment in subsidiary revaluation deficits (surpluses) transferred to profit and loss account	<u>10,412</u>	<u>(66,140)</u>
At 31 December	<u>116,514</u>	<u>52,283</u>

The transfer to the Profit and Loss Account reserve and the goodwill write-back to the Profit and Loss Account have both arisen from the disposal of revalued subsidiary undertakings during the year. There are no tax effects.

13. PROFIT AND LOSS ACCOUNT

	1993 £000	1992 £'000
At 1 January	57,976	10,209
Loss for the year	(18,764)	(18,373)
Realisation of investment in subsidiary revaluation (deficits) surpluses transferred from revaluation reserves	<u>(10,412)</u>	<u>66,140</u>
At 31 December	<u>28,800</u>	<u>57,976</u>

The company has changed its presentation of profits and losses arising on the disposal of revalued assets. Previously, realised revaluation surpluses were reflected through the Profit and Loss Account. Now they are excluded from the Profit and Loss Account and are disclosed separately in the Note of Historical Cost Profits and Losses on page 6.

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1993****(Continued)****14. PRINCIPAL SUBSIDIARIES**

The principal subsidiaries at 31 December 1993, all of whose accounts were prepared at 31 December 1993, were as follows:

	Country of Incorporation and Operation	Percentage Holdings %	Principal Activities
Midland Bank Trust Corporation (Cayman) Ltd	Cayman Islands	100	Trust and Corporate Services
Midland Bank International Finance Corporation Ltd	Jersey	100	Deposit Taking and Corporate Services
Midland Bank Trust Corporation (Isle of Man) Ltd	Isle of Man	100	Trust and Corporate Services
Midland Bank SA	France	99	Commercial Banking
Trinkaus & Burkhardt KGaA	Germany	70*	Commercial and Private Banking
Midland Bank AS	Turkey	100	Commercial Banking
Midland Servicios Financieros SA	Spain	100	Securities Dealing
James Capel-Midland Agencia de Valores SA	Spain	70	Equities Dealer
Samuel Montagu & Co BV	Holland	100	Corporate Finance
Guyerzeller Bank AG	Switzerland	75*	Private Banking
MBI SA	Argentina	50/50*	Investment Banking

* Indirect holdings

MIDLAND BANK INTERNATIONAL FINANCIAL SERVICES LIMITED

NOTED TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1993

(Continued)

15. DIRECTORS' EMOLUMENTS

The aggregate emoluments received by directors (from subsidiaries of Midland Bank International Financial Services Limited), were as follows:

	1993 £000	1992 £000
Fees	-	-
Other emoluments	-	420
Compensation for loss of office	-	720
	-	<u>1,140</u>
Chairman's emoluments		
G E Loudon	-	218
	-	<u>218</u>

Emoluments of the directors fell in the following bands:

	1993 £000	1992 £000
£85,001 to £90,000	-	1
£120,001 to £125,000	-	1
£215,001 to £220,000	-	1

16. IMMEDIATE AND ULTIMATE PARENT COMPANY

The Company's parent company is Midland Montagu (Holdings) Limited, which is registered in England and whose results have been consolidated with the results of Midland Bank plc, its immediate parent, which is registered in England. Copies of Midland Bank plc Group accounts are available from the Secretary, Midland Bank plc, 10 Lower Thames Street, London EC3R 6AB.

The Company's ultimate parent company is HSBC Holdings plc. Copies of the HSBC Holdings plc Group accounts are available from the Secretary, HSBC Holdings plc, 10 Lower Thames Street, London EC3R 6AE.

The smallest group in which these accounts are consolidated is that of Midland Bank plc and the largest is HSBC Holdings plc.

**REPORT OF THE AUDITORS TO THE MEMBERS OF MIDLAND BANK
INTERNATIONAL FINANCIAL SERVICES LIMITED FOR THE YEAR ENDED 31
DECEMBER 1993**

We have audited the accounts on pages 4 to 14.

Respective responsibilities of directors and auditors

As described on page 3, the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1993 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG, *Ken Marshall*
Chartered Accountants
Registered Auditor
London

28 February 1994